

HS Orka hf.
Condensed Interim Financial Statements
1 January - 30 September 2010
ISK

HS Orka hf.
Brekustigur 36
260 Reykjanesbær

Reg.no. 680475-0169

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Endorsement by the Board of Directors and the Management

The condensed interim financial statements of HS Orka hf. for the period from 1 January to 30 September 2010 are prepared in accordance with the International Accounting Standard, IAS 34, *Interim Financial Reporting*.

According to the statement of comprehensive income, the Company's operating revenue amounted to ISK 5,144 million in the first nine months of the year 2010 (2009: ISK 4,357 million) and the profit of the period amounted to ISK 1,238 million (2009: ISK 2,226 million). Comprehensive income amounted to ISK 1,167 million (2009: ISK 2,641 million). According to the balance sheet, the Company's assets amounted to ISK 41,686 million at the end of September 2010 (at year end 2009: ISK 42,069 million). Equity amounted to ISK 17,527 million at the end of September 2010 (at year end 2009: ISK 14,089 million) or 42.0% of total capital (at year end 2009: 33.5%).

At a board meeting on the 30 March 2010 the board of directors agreed to increase the share capital of the Company by 845 million shares at the rate ISK 3 per share. The total share capital increase amounted to ISK 2,534 million and has been paid. After the increase the share capital amounted to ISK 6,963 million.

At the end of the period one shareholder Magma Energy Sweden A.B. held 98,53% of the shares in HS Orka hf.

According to the best knowledge of the Board of Directors and the Management, the Company's condensed interim financial statements are in accordance with International Financial Reporting Standards as adopted by the EU and it is the opinion of the Board of Directors and the Management that the interim financial statements give a true and fair view of the Company's assets, liabilities and financial position as at 30 September 2010 and its financial performance and changes in cash flows in the period from 1 January to 30 September 2010.

Furthermore, it is the opinion of the Board of Directors and the Management that the interim financial statements give a fair view of the Company's financial development, financial position and performance and describe the main risk factors and uncertainty faced by the Company.

The Board of Directors and the Management of HS Orka hf. have today discussed the Company's interim financial statements for the period from 1 January to 30 September 2010 and confirmed by means of their signatures.

Reykjanesbær, 3 November 2010

The Board of Directors:

Ásgeir Margeirsson
Chairman of the board

Gylfi Árnason

Andrea Zaradic

Annette Cusworth

Ross Beaty

Managing Director:

Júlíus Jónsson

Assistant Managing Director:

Albert Albertsson

Independent Auditor's Review Report

To the Board of Directors of HS Orka hf.

We have reviewed the accompanying condensed statement of financial position of HS Orka hf. as of September 30, 2010 and the related condensed statements of comprehensive income, changes in equity and cash flows for the nine-month period then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with IAS 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting".

Reykjavík, 3 November 2010

KPMG hf.

Kristrún Helga Ingólfssdóttir

Condensed Statement of Comprehensive Income

	Notes	2010 Q3	2009 Q3	2010 Jan-Sept	2009 Jan-Sept
Operating revenue		1.599.726	1.500.468	5.143.593	4.357.006
Production cost and cost of sales		(1.090.908)	(911.395)	(3.457.834)	(3.023.991)
Gross profit		508.818	589.073	1.685.759	1.333.015
Gain on sale of operating assets		0	0	0	783.516
Other operating expenses	6	(75.794)	(195.106)	(302.557)	(382.369)
Results from operating activities		433.024	393.967	1.383.202	1.734.162
Finance income		783.162	152.331	1.527.313	410.529
Finance costs		(186.252)	(549.188)	(692.981)	(2.107.224)
Changes in fair value of derivatives		254.494	17.592	470.465	155.040
Changes in fair value of embedded derivatives in sales contracts		3.075.726	1.342.995	(1.028.694)	2.156.883
Net finance income	7	3.927.130	963.730	276.103	615.228
Share of profit (loss) of associates		59.192	221.694	(104.212)	228.745
Profit before income tax		4.419.346	1.579.391	1.555.093	2.578.135
Income tax expense		(784.828)	(321.182)	(316.759)	(352.429)
Profit for the period		3.634.518	1.258.209	1.238.334	2.225.706
Other comprehensive income					
Foreign currency translation difference of associate		(3.875)	(11.795)	(71.458)	415.789
Other comprehensive income for the period, net of income tax		(3.875)	(11.795)	(71.458)	415.789
Total comprehensive income for the period		3.630.643	2.029.930	1.166.876	2.641.495
Earnings per share					
Basic and diluted earnings per share		0,52	0,33	0,19	0,36

Notes on pages 9 to 13 are an integral part of these financial statements

Condensed Statement of Financial Position as at 30 September

Assets	Notes	30.9.2010	31.12.2009
Operating assets	8	24.961.582	25.492.705
Operating assets under construction	9	4.734.706	2.221.463
Intangible assets		978.109	952.899
Investments in associates	10	490.677	893.984
Investments in other companies	11	27.075	127.543
Bonds	12	483.991	2.742.040
Embedded derivatives in electric power sale contracts		5.559.694	6.623.015
Deferred tax asset		167.195	483.954
Long term receivable		553.468	532.081
Total non-current assets		37.956.497	40.069.684
Inventories		331.634	346.371
Bonds	12	902.431	0
Trade and other receivables		948.182	802.002
Embedded derivatives in electric power sales contracts		734.229	699.602
Cash and cash equivalents	13	812.813	151.782
Total current assets		3.729.289	1.999.757
Total assets		41.685.786	42.069.441
Equity			
Share capital		6.962.919	6.118.387
Share premium and statutory reserves		3.218.660	1.529.597
Translation reserve		335.925	407.383
Revaluation reserve		1.786.160	1.830.311
Reserve for shares in associate .....	(	262.638)	0
Retained earnings		5.485.601	4.203.116
Total equity	14	17.526.627	14.088.794
Liabilities			
Loans and borrowings		18.594.199	21.212.751
Pension obligation		1.403.500	1.375.700
Currency and interest rate swap contract	15	850.330	0
Total non-current liabilities		20.848.029	22.588.451
Loans and borrowings		1.906.522	2.563.250
Trade and other payables		1.160.367	1.263.911
Currency and interest rate swap contract	15	244.241	1.565.035
Total current liabilities		3.311.130	5.392.196
Total liabilities		24.159.159	27.980.647
Total equity and liabilities		41.685.786	42.069.441

Notes on pages 9 to 13 are an integral part of these financial statements

Condensed Statement of Changes in Equity for the period ended 30 September

	Share capital	Share premium and statutory reserve	Translation reserve	Revaluation reserve	Reserve for shares in associate	Retained earnings	Total
1 January to 30 September 2009							
Equity at 1 January 2009	6.118.387	1.529.597	0	929.933	0	(2.643.666)	5.934.251
Profit for the period						2.225.706	2.225.706
Foreign currency translation difference of associate			415.789				415.789
Total comprehensive income			415.789	0	0	2.225.706	2.641.495
Equity at 30 September 2010	<u>6.118.387</u>	<u>1.529.597</u>	<u>415.789</u>	<u>929.933</u>	<u>0</u>	<u>(417.960)</u>	<u>8.575.746</u>
1 January to 30 September 2010							
Equity at 1 January 2010	6.118.387	1.529.597	407.383	1.830.311	0	4.203.116	14.088.794
Profit for the period						1.238.334	1.238.334
Foreign currency translation difference of associate			(71.458)				(71.458)
Total comprehensive income			(71.458)	0	0	1.238.334	1.166.876
Depreciation and tax transferred to retained earnings				(44.151)		44.151	0
Share capital increase	844.532	1.689.063					2.533.595
Effects of put option on own shares of an associate					(277.354)		(277.354)
Expired put options on own shares of an associate					14.716		14.716
Equity at 30 September 2010	<u>6.962.919</u>	<u>3.218.660</u>	<u>335.925</u>	<u>1.786.160</u>	<u>(262.638)</u>	<u>5.485.601</u>	<u>17.526.627</u>

Notes on pages 9 to 13 are an integral part of these financial statements

Condensed Statement of Cash Flows

1 January to 30 September

	Notes	2010 Jan-Sept	2009 Jan-Sept
Cash flows from operating activities			
Profit for the period		1.238.334	2.225.706
Items not affecting working capital:			
Gain on sale of operating assets		0	(783.516)
Increase in pension fund obligation		27.800	47.924
Depreciation and amortization		758.066	645.516
Impairment		0	142.045
Share of loss (profit) of associates		104.211	(228.745)
Finance income and costs .....	(	276.103)	(615.228)
Income tax expense		316.759	352.429
		2.169.067	1.786.131
Inventories, decrease (increase)		14.737	(94.193)
Receivables, (increase) decrease .....	(	165.799)	523.638
Current liabilities, decrease .....	(	4.380)	(480.158)
Net cash from operations before interest and taxes		2.013.625	1.735.418
Interest income received		7.580	75.035
Interest and indexation costs paid .....	(	529.766)	(595.655)
Net cash from operating activities		1.491.439	1.214.798
Cash flows from investing activities			
Acquisition of operating assets during the period .....	(	2.078.769)	(586.679)
Payments for operating assets acquired in 2008 .....	(	0	(959.235)
Proceeds from sale of operating assets		0	1.606
Acquisition of intangible assets .....	(	51.089)	(56.163)
Acquisition of shares in other companies .....	(	35.000)	(10.500)
Repayment of loan to HS Veitur		0	697.244
Proceeds from sale of bonds		1.100.558	790.469
Net cash used in investing activities	(	1.064.300)	(123.258)
Cash flows from financing activities			
Share capital increase		2.533.595	0
Paid with-holding tax of dividend .....	(	0	(50.000)
Repayment of borrowings .....	(	1.371.875)	(991.883)
Loan from HS Veitur		0	388.143
Repayment of loan from HS Veitur .....	(	378.815)	0
Short-term loans, decrease .....	(	549.013)	(976.731)
Net cash provided by (used in) financing activities		233.892	(1.630.471)
Increase (decrease) in cash and cash equivalents		661.031	(538.931)
Cash and cash equivalents at 1 January		151.782	822.305
Cash and cash equivalents at 30 September		812.813	283.374
Investing and financing activities not affecting cash flows			
Acquisition of operating assets .....	(	635.538)	0
Current liabilities		257.062	0
Sale of operating assets		0	854.472
Investment in bonds .....	(	0	(854.472)
Sale of bonds		378.476	0

Notes on pages 9 to 13 are an integral part of these financial statements

Notes to the Condensed Interim Financial Statements

1. Reporting entity

HS Orka hf. (the "Company") is a limited liability company domiciled in Iceland. The Company's registered office is Brekkustígur 36, Reykjanesbær, Iceland. The Company handles production of electric power, hot water and geothermal steam and sale of electric power. At August 16, 2010 the Company became a subsidiary of Magma Energy Sweden A.B.

The Company's financial statements can be found at its website www.hsorka.is and at the website of the Icelandic Stock Exchange; www.nasdaqomxnordic.com.

2. Statement of compliance

The Company's interim financial statements are prepared in accordance with *IAS 34, Interim Financial Reporting*. They do not include all of the information required for full annual financial statements and should be read in conjunction with the financial statements of the Company as at and for the year ended 31 December 2009.

These condensed interim financial statements were approved by the Board of Directors on 3 November 2010.

3. Significant accounting policies

The accounting policies applied by the Company in these condensed interim financial statements are the same as those applied by the Company in its financial statements as at and for the year ended 31 December 2009.

Comparative amounts in statement of cash flows have been reclassified to conform with a change in classification of loans to HS Veitur hf.

The interim financial statements are prepared in Icelandic krona, which is the company's functional currency and all amounts have been rounded to the nearest thousand. They are based on historical cost, except for the following:

- a part of operating assets are recognized at revalued cost, which was the fair value at the revaluation date
- derivative financial instruments are measured at fair value
- embedded derivatives in electric power sales contracts are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- financial assets available for sale are measured at fair value.

4. Use of estimates and judgments

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key source of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 31 December 2009.

Notes, continued

5. Segment reporting

The segment reporting comprise the industries, which form the basis for managerial decision taking.

1 January - 30 September 2010	Power Production	Electricity sale	Other	Total
External revenue	2.980.631	1.525.983	636.979	5.143.593
Inter-segment revenue	481.627			481.627
Total segment revenue	3.462.258	1.525.983	636.979	5.625.220
Segment operating results	1.229.066	115.436	38.700	1.383.202
Unallocated items				
Net finance income and costs				276.103
Share of profit of associates .....			(	104.212)
Income tax expense .....			(	316.759)
Profit for the period				1.238.334
Segment assets	29.997.263	56.735	620.399	30.674.397
Unallocated assets				11.011.389
Total assets				41.685.786
Unallocated liabilities				24.159.159
Capital expenditures	2.739.192	3.218	22.986	2.765.396
Depreciation and amortization	718.190	3.114	36.762	758.066
1 January - 30 September 2009				
	Production	Electricity sale	Other	Total
External revenue	2.278.168	1.519.346	559.492	4.357.006
Gain on sale of operating assets	783.516			783.516
Inter-segment revenue	543.167			543.167
Total segment revenue	3.604.851	1.519.346	559.492	5.683.689
Segment operating results	1.394.304	304.753	35.105	1.734.162
Unallocated items				
Net finance income and costs				615.228
Share of profit of associates				228.745
Income tax expense .....			(	352.429)
Profit for the period				2.225.706
Segment assets	28.566.626	46.063	673.476	29.286.165
Unallocated assets				8.064.064
Total assets				37.350.229
Unallocated liabilities				28.774.483
Capital expenditures	614.840	3.053	24.950	642.843
Depreciation and amortization	614.873	3.804	26.839	645.516
Impairment	142.045			142.045

Notes, continued

5. Segment reporting, contd.:

Major customers

Revenues from one customer of the Company's Production segment represents approximately ISK 2,306,339 of the Company's total revenues during the period (1.1.2009 - 30.9.2009: ISK 1,686,197).

Revenues from one customer of the Company represents approximately ISK 1,185,418 during the period (1.1.2009 - 30.9.2009: ISK 1,104,068) and relates to segments as follows:

	Power production	Electricity sale	Other	Total
Revenues 1.1.2010 - 30.9.2010	463.544	152.386	569.488	1.185.418
Revenues 1.1.2009 - 30.9.2009	439.748	137.460	526.860	1.104.068

6. Other operating expenses

Operating expenses specifies as follows:

	2010 Q3	2009 Q3	2010 Jan-Sept	2009 Jan-Sept
Salaries and related expenses	30.305	26.422	89.345	81.700
Increase in pension fund commitment	403	(7.560)	8.181	47.920
Administrative expenses	40.319	30.298	124.352	99.103
Depreciation and amortization	4.767	3.901	14.755	11.601
Assets subject to final write off	0	0	65.924	0
Impairment of intangible assets	0	142.045	0	142.045
Total operating expenses	75.794	195.106	302.557	382.369

During second quarter capitalized cost in the amount ISK 62,522 related to new headquarters was written off.

7. Finance income and costs

Finance income and costs specifies as follows:

	Notes	2010 Q3	2009 Q3	2010 Jan-Sept	2009 Jan-Sept
Interest income on loans and receivables		5.553	3.198	9.789	35.999
Interest income on available for sale securities		6.448	149.133	103.892	374.530
Net foreign exchange difference		771.161	0	1.367.820	0
Fair value changes on financial assets through profit and loss		0	0	45.812	0
Total finance income		783.162	152.331	1.527.313	410.529
Interest expenses		(148.458)	(99.888)	(523.017)	(596.565)
Indexation		19.571	(80.167)	(69.496)	(194.394)
Impairment of shares in other companies	10	0	0	(100.468)	0
Fair value changes on financial assets through profit and loss		(57.365)	(90.870)	0	(90.870)
Net foreign exchange difference		0	(278.263)	0	(1.225.395)
Total finance costs		(186.252)	(549.188)	(692.981)	(2.107.224)
Changes in fair value of derivatives		254.494	17.592	470.465	155.040
Changes in fair value of embedded derivatives in sales contracts		3.075.726	1.342.995	(1.028.694)	2.156.883
Net finance costs		3.927.130	963.730	276.103	615.228

Notes, continued

8. Operating assets

The company anticipates that it needs to invest in a new discharge pipe system for Svartsengi in the next 3 years and that the majority of the investment will be in the year 2012 but design is ongoing. Once the discharge system is in full operation more geothermal fluid can be extracted from the reservoir resulting in increased power generation estimated to be approximately 5 MW from already installed turbine generators.

9. Operating assets under constructions are specified as follows:	30.9.2010	31.12.2009
Net book value 1.1.	2.221.463	1.285.521
Additions	2.513.243	935.942
Net book value	<u>4.734.706</u>	<u>2.221.463</u>

Impairment of operating assets under construction

Operating assets under construction is capitalized cost related to a new power plant at Reykjanes, which was planned to supply Norðurál with power for a new aluminum smelter in Helgúvík. In 2007, HS Orka and Norðurál concluded an electric power sales agreement on power for the new aluminum smelter in Helgúvík. Due to the current market condition, which is affecting the financing of the Company and a delay in receiving operational license there is a delay in opening the new power plant and the length of the delay is uncertain. The agreement with Norðurál is currently under dispute and Norðurál has initiated arbitration proceedings to determine the validity of the agreement, which is further explained in note 16. Despite the delay and the dispute with Norðurál it is the management's opinion that the recoverable amount of operating assets under construction is above carrying amount as the Company has an opportunity to negotiate on power sale.

10. Share in Bláa Lónið hf. ("Blue lagoon")

Share in Blue lagoon was decreased by ISK 277,354 due to put option on own shares in the Blue lagoon. In June 2011 the Blue Lagoon is obligated to acquire outstanding shares from one of its shareholders. HS Orka has recognizes its share in the put option in the reserve for shares in associate within equity. The reserve is decreased by HS Orka share in expired put option which amounted to ISK 14,716.

11. Impairment of shares in other companies

During the nine months ended 30 September 2010 shares in Eignarhaldsfélagið Farice ehf. were written down in the amount of ISK 82,968 and shares in Keilir, Atlantic Center of Excellence ehf. by ISK 17,500.

12. Bonds

Bonds are specified as follows:

	30.9.2010	31.12.2009
Non-current		
Financial assets designated through profit and loss	483.991	541.356
Available for sale financial assets	0	2.200.684
	<u>483.991</u>	<u>2.742.040</u>
Current		
Available for sale financial assets	902.431	0

Bonds receivable from HS Veitur hf. is now classified as current as it is the management intention to sell them within next 12 months.

13. Restricted cash

According to collateral agreement concluded in March 2010 with Company's lenders to secure loan repayments, received cash in foreign currency up to USD 4.5 million is dedicated for repayment of loans.

Notes, continued

14. Equity

Issued capital

At a board meeting on the 30 March 2010 the board of directors agreed to increase the share capital of the Company by 844,532 shares. All the shares were sold at the rate of ISK 3 per share. The total sales price amounted to ISK 2,533,595 and has been paid.

Reserve for shares in associate

The reserve for shares in associate comprises HS Orka share in put option on own shares in associate.

15. Currency and interest rate swap contract

The long term portion of currency and interest rate swap contract was classified as current in year 2009 due to an uncertainty of a settlement. The long term portion of the agreement has now been classified as long term liability as the resolution committee of Glitnir Bank has stated that it will collect the contract on its maturity. The contract is at 30 September 2010 classified according to the contracts term.

16. Subsequent event

Dispute of power sale agreement with Nordurál

HS Orka hf, in 2007, entered into a conditional power sale agreement with Nordural to sell power from a new power plant at Reykjanes, which is currently under construction, to a new aluminum smelter in Helguvík. The agreement contained a number of conditions, which were not fulfilled by the time set out in the agreement. Accordingly, HS Orka holds the view that the agreement has lapsed in accordance with its terms. Nordural disputes this interpretation and maintains that the agreement is in force. The agreement provides that disputes shall be resolved by arbitration and Nordural has initiated arbitration proceedings to determine the validity of the agreement. The arbitration proceedings were initiated on 19 July, 2010 and no hearing date has been set. There is an uncertainty about the conclusion of the arbitration, which leads to uncertainty on the future sale of electricity power from the power plant under construction.

Acquisition of additional shares in Suðurorka ehf.

The Company has agreed to acquire additional shares in Suðurorka ehf. the amount of ISK 35,000 before end of year 2010.

Loan agreements

At end of the year 2009 the Company made temporary agreements with its lenders on covenants and interest rates. The agreements expires at end of the year 2010 and at that time the previous terms of the loans will become effective which will restrict the covenants and decrease interest premium. Management has been in negotiation with the banks and is very confident that a favorable conclusion will be reached as the banks have received additional guarantees for the repayment of the loans.

17. Related parties

Identity of related parties

The Company has a related party relationship with its associates, its directors and executive officers and other companies owned by them.

The Company sold goods and services to owners with more than 25% share to the amount of ISK 1,051 during the period.

The Company purchased goods and services from other related parties to the amount of ISK 671,125 during the year.

The Company purchased goods and services from associated companies to the amount of ISK 10,742 during the period.

The Company sold goods and services to associated companies to the amount of ISK 13,584 during the period.